Financial Markets Development and Macroeconomic Stability in Sub-Sahara Africa: Issues and Policy Options

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Abstract: *The paper examines the link between financial markets development and macroeconomic stability in Sub-Sahara Africa. The major objective of the paper is to examine the impact of financial markets development on economic growth using secondary data covering the period 1980-2012. It also examines the relationship between financial markets indicators (such as the ratios of broad money supply to GDP, private sector credit to GDP, total bank credit to GDP and market capitalization to GDP) and macroeconomic variables (such as the growth rates of inflation, employment, and poverty and real interest rate) in the region. The paper adopts both analytical and econometric techniques such as ordinary least squares method, granger causality analysis, Johansson's co-integration techniques and vector error correction model to investigate the relationship. Evidence from the study reveals that a long-run relationship exists between financial markets indicators and macroeconomic variables. It was also discovered that financial markets indicators have positive and significant impact on economic growth in countries with largely developed financial markets, while financial markets indicators have insignificant impact on economic growth in countries with minimally developed financial markets. It was also revealed that causality runs from financial markets indicators to macroeconomic variables (inflation, employment, poverty and real interest rates).*

The ratios of domestic private sector credit and bank credit were found to have negative impact on economic growth but changes in these variables cause changes in inflation, employment and poverty rates. Furthermore, the ratio of market capitalization also has significant impact on economic growth. If policymakers want to promote economic growth and stabilize macroeconomic variables, they have to focus attention on long-run policies that will accelerate the development of the financial markets through innovations and effective supervision. Also, the governments should take it as a policy options to create the enabling environment for the growth and development of financial markets with a view to use them to achieve macroeconomic stability in Sub-Sahara Africa.

Keywords: *Financial Markets Development, Macroeconomic Stability, Economic Growth, Inflation Rate, Real Interest Rate, Poverty Rate, Employment Rate*